Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for our Future	)	GN Docket No. 09-51
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337

REPLY COMMENTS

of the

RURAL TELEPHONE FINANCE COOPERATIVE (RTFC)

The Rural Telephone Finance Cooperative (RTFC) appreciates the opportunity to submit these reply comments in the above-captioned proceedings.

RTFC is a member-owned, privately funded, not-for-profit cooperative created solely to serve the financial needs of the rural telecommunications industry. RTFC was created in 1987 to provide financing for rural telephone companies and their affiliates as a supplemental lender to the loan programs of the Rural Utilities Service. With a membership of nearly 500 cooperative and commercial telephone companies serving rural areas, RTFC has, during its 23-year history, provided more than $10 billion in credit to rural telecommunications providers.

RTFC knows that without a financially sound rural telecommunications industry, rural America will be left behind in our nation's drive to achieve ubiquitous broadband service. For decades, rural telecommunications providers have made significant investments, funded with debt and equity capital, to provide modern infrastructure capable of delivering state-of-the-art telecommunications services. The existing regulatory regime, including such elements as rate of return regulation and universal service fund (USF) support, has resulted in a predictable revenue flow that has enabled RTFC and other lenders to lend capital at reasonable rates to finance rural America's telecommunications infrastructure. Without that predictability, access to capital will be diminished and rural telecommunications providers will be hamstrung in their ability to continue providing advanced telecommunications services to rural Americans.

RTFC believes that the changes outlined and proposed in the FCC's Notice of Proposed Rulemaking (NPRM), Notice of Inquiry (NOI) and National Broadband Plan (NBP) would seriously inhibit investments in infrastructure necessary for the delivery of broadband service to rural America. These Reply Comments are not intended to specifically review and comment on every aspect and detail of the Commission's proposals in the above-captioned proceedings, but, rather, to provide our perspective and position on these extremely critical issues. In that regard, we strongly support the initial Joint Comments of the National Exchange Carrier Association, Inc.; the National Telecommunications Cooperative Association; the Organization for the Promotion and Advancement of Small Telecommunications Companies; the Western Telecommunications Alliance; the Rural Alliance and the concurring associations as filed with the Commission on July12, 2010.

Specifically, RTFC has serious concerns with the following Commission proposals outlined in the NBP:

(1) Replacing rate-of-return (RoR) regulation with incentive based price cap regulation. RoR regulation has always been an essential component of the revenue structure of rural local exchange carriers (RLECs). It has provided RLECs the financial stability to support the investment necessary to offer broadband service (primarily DSL) to 92% of their customers. We believe that incentive regulation – such as a price cap regime – will provide a disincentive to investment in network infrastructure in high cost rural areas. Rural telecommunications providers' investment patterns are a series of peaks and valleys, not the relatively flat line conducive to price cap regulation. RLECs lack the scale and scope necessary to spread capital expenditures sufficiently to smooth the investment curve. These characteristics make price cap regulation infeasible for rural providers and would result in higher costs to rural Americans. Mandated incentive regulation would severely limit the availability of debt capital at reasonable cost to rural telecommunications providers. RoR regulation has proven to be an extremely effective and efficient mechanism for fostering the provision of advanced telecommunications (including broadband) services and enabling the build-out of network infrastructure to customers in rural areas. We believe that the transition outlined by the Commission would seriously disrupt services and economic growth in rural America.

(2) Capping or freezing overall high-cost funding, and/or the specific mechanisms for RLECs such as Interstate Common Line Support (ICLS). Without adequate USF support, RLECs will experience severe revenue reductions. They will be unable to meet their carrier-of-last-resort (COLR) obligations to rural consumers. The existing uncapped ICLS is consistent with the structure, goals and mechanism of RoR by providing cost recovery, if required, for network costs assigned to the interstate jurisdiction. The Commission proposal to cap these programs will increase the pressure to raise rates to the rural consumer and disincentivize investment in rural America. It will exacerbate the problems associated with providing advanced telecommunications services in rural areas and fail to advance the goal of ubiquitous broadband service.

(3) Transitioning from the existing successful Universal Service Fund to a new Connect America Fund. The USF has advanced the national goal of universal service and enabled high cost RLECs to provide telecommunications services comparable to those services provided in urban and suburban America at reasonably comparable rates. The rural telecommunications providers have made good faith investments, with equity capital and debt funding provided by lenders such as RTFC, in the infrastructure necessary to offer modern services to their customers in rural areas. The existing state-of-the-art RLEC networks, advanced services, and reasonable rate structures are all enabled by the current regulatory regime. The Commission's NBP would adversely alter the key revenue support mechanism on which all prior investments have been based. The current USF has been successful in its support for modern telecommunications services in rural America. We urge the Commission to make sure that a successor fund be adequate to support all of the telecommunications needs of rural America.

4) Phasing out intercarrier compensation (ICC) without providing for a mechanism to allow the RLECs to recover their investment. If the current ICC regime is unsustainable in today's telecommunications marketplace, the commission must provide for some mechanism, beyond increases to local rates and subscriber line charges, to keep these carriers of last resort whole. Without such a funding mechanism, RLECs will not have the revenues necessary to attract debt capital and maintain or modernize their networks. These RLEC networks are in place today providing rural Americans with broadband services. Without RLECs' continued financial health it is extremely unlikely other providers will be able to make the business case for stepping into the void they will leave.

Should the Commission adopt the proposals outlined in the NPRM, NOI and NBP, all existing rural telecommunications providers will be confronted with a significant reduction in revenues, diminished access to debt and equity capital and pressure to substantially increase rates for customers. The current FCC proposal will have a devastating impact on the telecommunications services (including broadband) provided to rural Americans.

All of these provisions, if enacted, would necessitate significant rate increases for rural Americans and severely impede much-needed investment in rural telecom infrastructure. The NBP, if implemented as currently outlined, would eliminate the existing sufficient and sustainable USF and ICC cost recovery mechanisms and replace them with a cost recovery structure that will disincentivize capital investment. Without stable assured sources of revenues for rural telecom service providers, lenders such as RTFC will be unable to justify lending for rural infrastructure modernization projects. Without debt capital available to RLECs, investment in network upgrades will be limited and inadequate to maintain the existing network, much less to upgrade the infrastructure to provide 4/1 Mbs or better broadband service.

RTFC respectfully urges the Commission to reconsider the current NPRM, NOI and NBP proposals outlined above and to assure adequate funding for rural telecommunications service providers. Existing funding mechanisms have allowed deployment of a technologically advanced telecommunications network (including broadband capability) to Americans in high cost rural areas. Any successor broadband-focused funding regime, must do the same and allow rural telecommunications service providers to continue to offer quality basic and broadband telecommunications services at rates comparable to those offered to urban and suburban Americans.

Respectfully submitted,

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